

Keeping America Great

By the Honorable David M. Walker
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Thank you, David Gergen, for that kind introduction. It's wonderful to be here this evening. GAO has a special relationship with Harvard and with the John F. Kennedy School of Government. We're a relatively small agency, with just over 3,200 employees. Nonetheless, about 50 of them have degrees from Harvard, and another 50 or so GAO employees, including me, have received professional certificates from the JFK School. Fortunately, these numbers have been increasing at a healthy pace in recent years.

As part of GAO's executive candidate development program, we also encourage all our new executives to attend the four-week Senior Managers in Government program here at the Kennedy School. We've found this has been an excellent way for our new executives to gain exposure to various leadership styles, skills, and concepts in order to improve their ability to solve problems and manage change. My special thanks to the program's director, Pete Zimmerman, who's been a good friend to GAO and me.

Now more than ever, federal departments and agencies need men and women who can think critically and creatively. Harvard has delivered on that score in the past.

I have little doubt that Harvard, in general, and the JFK School, in particular, will continue to play an important role in shaping what our government does and how it does business in the 21st century. However, while getting a degree from Harvard or another top school is an impressive start, it's not enough. As one of your alums, Theodore Roosevelt, pointed out, "it's character that counts" and you have to be "in the arena" of life to make a real and lasting difference.

In 2006, 230 years after our nation declared its independence, the United States has much to be proud of and much to be thankful for. Today, we are among the world's oldest democracies and we are the sole superpower, with

unparalleled economic, military, foreign policy and cultural influence. Our overall standard of living remains exceptionally high. Compared to most nations, the United States ranks well on measures like personal income, public literacy, post-secondary education, and homeownership, to name a few. The United States is also a beacon of liberty, and Americans enjoy political and personal freedoms that are the envy of the world.

At the same time, I'm also reminded of a saying from the Gospel of Luke, a saying that John F. Kennedy, the namesake of this school, sometimes quoted: "For of those to whom much is given, much is required." Just looking around this wonderful room it's clear how much we as Americans have been given. But it's equally clear that what's required of us now is action – action that will put our country back on a prudent and sustainable course, action that will help us discharge our stewardship responsibilities, and action that will help keep America great in the 21st century.

In my view, the greatest threat to America's future isn't hiding in a cave somewhere in Afghanistan or Pakistan; it's right here at home, in our governments, in our businesses, on our campuses, and in our neighborhoods. What I'm talking about is declining values and comity combined with continuing ignorance, apathy, and inaction on a range of issues that are rapidly reshaping our nation and our world.

These issues include changing demographics, global economic trends, new security threats, and serious challenges in such areas as education, energy, health care, and the environment. Several of these challenges are unprecedented in their size, scope, complexity, and potential impact. Unfortunately, these issues are getting too little attention, provoking too little concern, and prompting too little action. No disrespect to Yogi Berra, but "déjà vu all over again" just isn't going to cut it anymore.

Today in America, both policymakers and the public need to face the facts, take a long-term perspective, and recognize the reality that real reform and some shared sacrifice are called for. After all, if we believe in the concept of stewardship, when our time on this earth is nearing an end, we should be able to look our children and our grandchildren in the eye and say we did everything we could to pass on an America that's better off and better positioned for the future. Unfortunately, we aren't anywhere close to being able to do that today.

Tonight, I'm going to talk about some of our challenges to give you a better sense of where we're headed and why it's so urgent that we transform government, and do it very soon. I'm then going to talk about the need for real leadership and what each of us can do to help keep America great.

21st Century Challenges

What are these known changes and challenges? Let me start with one of the most sweeping agents of change, and that's demographics. Demographics will decisively shape the American and global landscape in the future.

Our population is aging. At the same time, U.S. workforce growth is slowing. This means that just when increasing numbers of baby boomers start to retire and draw benefits, there will be fewer workers paying taxes and contributing to social insurance programs. Importantly, retirees are living longer but wanting to retire earlier. These developments are going to put huge strains on our pension and health care systems.

Beyond demographics, the United States confronts a range of other challenges. Globalization is affecting our international competitiveness, our trade posture, our capital markets, our jobs, and our approach to environmental and public health issues. For example, globalization is a key reason public health experts are so concerned about the rapid spread of viruses like avian flu.

With the end of the Cold War, we face new security threats, including transnational terrorist networks and rogue states armed with nuclear weapons.

Other challenges come from technology. In recent decades, spectacular advances in technology have transformed everything from how we do business to how we communicate to how we treat and cure diseases. But because of technology, we're also struggling with privacy, security, and other concerns. Unfortunately, the United States — which gave the world Thomas Edison, the Wright brothers, Jonas Salk, and Bill Gates — now ranks 25th in the world on math and science testing results.

As I mentioned before, our quality of life in many ways has never been better. But America also faces a growing and unhealthy gap between the

haves and the have-nots. And as some of you may know first-hand, we're also facing a range of quality-of-life concerns in our personal lives, including underachieving public schools, gridlocked city streets, and the stresses of caring for aging parents and growing children all at once. At the same time, our nation's health care system is in critical condition, plagued by growing gaps in insurance coverage, soaring costs, and below-average results on basic measures like medical error rates, infant mortality and life expectancy.

Our Nation's Four Deficits

Perhaps the most urgent challenge we face is our nation's deteriorating financial condition and growing fiscal imbalance. The United States now confronts four interrelated deficits with serious implications for our role in the world, our economic growth, our standard of living, and even our national security.

The first deficit is the federal budget deficit, which in 2005 was around \$319 billion on a cash basis. This widely reported number is somewhat misleading, because without the Social Security surpluses, the federal cash-based deficit was actually closer to \$500 billion. Moreover, on an accrual basis, our fiscal 2005 deficit was \$760 billion, up \$144 billion in the last year alone.

Even more troubling, the federal government's long-term liabilities and unfunded commitments for things like Social Security and Medicare benefits have risen to more than \$46 trillion. That's up from about \$20 trillion just five years ago. The new Medicare prescription drug benefit, which may be one of the most poorly designed, inefficiently implemented, and fiscally irresponsible government programs of all time, has added more than \$8 trillion to this sea of red ink. And these numbers don't even take into account the bills that are coming from rebuilding New Orleans and the Gulf Coast or future costs associated with Iraq and Afghanistan.

In recent years, we've heard calls to relieve Americans of burdens like the so-called "death tax," but we need to talk more about the very real and growing "birth burden." That's what I call the staggering amount of government commitments that every American, including newborns, will some day have to pay for.

As a result, every new birth certificate now comes with a bill of \$156,000. With a “birth burden” like this, it’s no wonder that newborn babies cry! Alternatively, this means that every full-time worker carries a de-facto debt load of \$375,000. For a dual income family, this is like having a \$750,000 mortgage without owning a house! Unfortunately, these numbers are growing every second of every day because of continuing deficits, known demographic trends, and compounding interest costs.

The second deficit is our savings deficit. Too many Americans — from individual consumers to elected officials — are spending today as if there’s no tomorrow. Consequently, America has the lowest overall savings rate of any major industrialized nation.

The annual U.S saving rate as a percentage of disposable personal income has been falling for some time. But last year, for the first time since 1933, our annual saving rate was in negative territory. Think about it. We’ve returned to saving levels not seen since the depths of the Great Depression. Clearly, many Americans, like the federal government, are living beyond their means and are deeply in debt. This trend is particularly alarming in an aging society such as our own. Those Americans who save more will certainly live better in retirement.

The bottom line is, those Americans who fail to plan, save, invest, and preserve their savings for retirement are rolling the dice, and given the problems with our nation’s retirement system, the odds are heavily stacked against them.

So, if we aren’t saving at home, who’s been underwriting America’s recent spending spree? The answer is foreign investors. And that brings me to America’s third deficit — our overall balance-of-payments deficit. America is simply spending more than it’s producing. In 2005, the U.S. trade deficit hit about \$726 billion, up more than \$100 billion from the prior year.

While our own saving rates have plummeted, savings rates abroad have not, and overseas money has been pouring into the United States. Thanks to the high savings rates in China, Japan, and elsewhere, it’s been relatively cheap for Americans to borrow. But there’s a catch, and it’s a big one. Increasingly, we are mortgaging our collective future, and some of our leading lenders may not share our long-term national interests. Imagine what would happen to interest rates on Treasury securities if these foreign

investors suddenly decided to buy fewer of these securities or, worse yet, started to sell off their U.S. holdings.

Finally, there's our fourth deficit, and it's probably the most sobering deficit of all. What I'm talking about is America's leadership deficit.

Not enough key policymakers are concerned about America's growing fiscal imbalance and the other long-term challenges that I've mentioned. As a result, there have been pitifully few calls for making tough choices or fundamental reform.

At both ends of Pennsylvania Avenue, on both sides of the political aisle, and at all levels of government, there have been too few champions who have the courage to speak the truth, to make tough choices, and to bring about real, fundamental and lasting change. Instead, the government's continuing lack of fiscal discipline and business-as-usual attitude has made our long-term situation even worse. The government's recent spending sprees and tax cuts are nothing less than a body blow to overall fiscal responsibility. Candidly, "tax and spend" policies aren't advisable, but enacting tax cuts and spending hikes at the same time isn't a good idea either. The truth is, if our nation took a fiscal fitness test today, it would flunk!

Unfortunately, Wall Street and the business community are not being as vocal on this issue as they have in the past. Stated differently, they are largely "missing in action." Both government and the private sector tend to suffer from the dual afflictions of myopia and tunnel vision. At the same time, the private sector really does have a dog in this fiscal fight, because if government keeps on as it has, companies are going to pay a price, such as rising tax burdens, higher interest rates, and/or the impacts of slower economic growth.

What we've got going are the elements of a perfect storm, a potent mix of ignorance, apathy, and inaction at all levels and in many sectors of American society. If we continue on our present course, a fiscal crisis is not a matter of "if" but "when."

Transforming Government

If our nation is to be prepared for the challenges and changes that are coming, government transformation is essential. The challenges I've discussed aren't partisan issues, and the solutions won't be either.

In my view, the first order of business is to restore fiscal discipline. We've got to stop digging our fiscal hole deeper. Right now, we need to set realistic spending caps and re-impose pay-as-you-go rules on both the spending and the tax sides of the ledger. We also need to implement some triggers to alert policymakers to excessive spending and facilitate the long-overdue and much-needed reform of mandatory spending programs and tax expenditures. Members of Congress should also have more explicit information on the long-term costs of spending and tax bills — before they vote on them. The new Medicare prescription drug benefit has become the poster child for needed changes in this area.

More broadly, I'd urge both appointed and career officials at every federal agency and program to give careful thought to their missions and operations in light of current trends and future realities.

The problem is that way too much of government today remains on autopilot and is based on social, economic, national security, and other conditions that existed when Harry Truman, Dwight Eisenhower and John F. Kennedy were in the White House.

As a nation, we need to ask what is the proper role of the federal government in the 21st century? How should it be organized? Should contractors or federal employees or some combination of the two provide government services? How much will it cost, and how will we pay for it?

Nothing less than a top-to-bottom review of federal programs and policies is needed to determine if they are meeting their objectives. This will also help free up resources for other needs. Congress and the President need to decide which policies and programs remain priorities, which should be overhauled, and which have simply outlived their usefulness.

Entitlement reform is particularly essential. We need to restructure Social Security, Medicare, and Medicaid and make these programs solvent and sustainable for future generations. We also need to reengineer the base of other federal spending and tax policies.

To help in this effort, GAO has published an unprecedented report that asks a series of probing questions about current mandatory and discretionary spending programs and tax policies.

For example, how can we better allocate resources across the armed services to address current and future credible security threats? Should we reconsider some long-standing tax incentives, such as the health care exclusion? Is it time for the federal government update its organizational model and job classification and compensation systems, both of which date to the 1950s?

Our report is called “21st Century Challenges: Reexamining the Base of the Federal Government,” and you can find it free on our website at www.gao.gov.

I should stress that while GAO doesn’t make public policy decisions, decades of experience and expertise put GAO in a unique position to help stimulate and inform discussion and debate on a broad range of issues as a key input into the policy-making process.

I’m also hopeful that GAO’s work will encourage the development of a set of key national indicators. These are quantitative and outcome-based measures that policymakers can use to better assess the United States’ progress over time and relative to other nations on benchmark issues like public safety, health care, housing, education, the economy, and the environment. For years now, foreign governments and even some U.S. states and localities have been using indicators to successfully prioritize and target public resources. It’s time for the U.S. government to do so.

Transforming government won’t happen overnight. Elected, appointed, and career officials will need to work together for a sustained period of time—perhaps a generation or longer. Public officials will need to reach across institutional and political lines. The federal government will need to partner with businesses, professional organizations, nonprofit groups, and other levels of government to develop new solutions to old problems.

GAO: Leading by Example

We at GAO are determined to “lead by example” in the overall transformation effort. In recent years, we’ve undertaken a number of

internal changes to enhance our performance, ensure our accountability, and help better position us for the future. By working together to create a strategic plan, realign our organizational structure, adopt a set of core values, and employ a balanced score-card approach, we've made dramatic progress in just a few years. We've focused on achieving results while obtaining feedback from our congressional clients, our people, and partnerships with other entities both inside and outside of government. By doing so, we've managed to double our outcomes on many of the key performance results we've set for ourselves.

No person and no organization will ever be perfect, so we're committed to a policy of continuous improvement. We're also committed to sharing our lessons learned and helping others to see their way forward. Our hope is that other agencies will be able to tailor many of GAO's efforts to meet their own needs. We also seek to learn from others both domestically and internationally.

Leading Change to Mitigate Risk

Many of you in this room are our country's future leaders, and that brings me to my final point tonight. Today, it's clear that to deal with America's current and emerging challenges, we need effective leaders in all sectors of society and at all levels of government. That means elected, appointed, and career civil servants who are capable, caring, and committed. Leadership also needs to come from the private and nonprofit sectors and the media. In the final analysis, leaders in government and elsewhere need to have four key attributes: courage, integrity, creativity, and stewardship.

Specifically, we need leaders who have the courage to state the facts, to speak the truth, and to do the right thing, even when it isn't popular. We need leaders who understand that our nation's fiscal challenge is not just about numbers, it's also about values.

We need leaders who have the integrity to lead by example and to practice what they preach. Those in positions of power and trust must understand that the law represents the floor of acceptable behavior, and those individuals should strive to meet higher moral and ethical standards. We need leaders who are able to innovate and develop new solutions to old problems and who can help show others the way forward. Finally, we need leaders who take their stewardship responsibilities seriously. These

individuals understand that their job is not just to leave things better off when they leave than when they came, but also to leave things better positioned for the future.

When it comes to our growing fiscal imbalances and other challenges, effective leadership is essential. After all, history shows that dramatic and fundamental change typically results from either a crisis or real leadership. Personally, I prefer real leadership. However, the truth is that today, meaningful change is more likely to come from the combined efforts of many individuals, otherwise known as “we the people.”

Candidly, it is the American people who need to start speaking up and making their views known. After all, why should any elected official stick his or her neck out on a difficult issue that no one seems to care about? Younger Americans especially need to become active in this discussion because, like many of you here tonight, you and your children will bear the heaviest burden if today’s leaders fail to act.

Despite my sobering message here tonight, I don’t want you to go away thinking that things are hopeless. That’s far from true. I’m an optimist by nature and I’m also a student of history, so I know that the United States has risen to address significant challenges in the past. Today, we still have a real window of opportunity to turn things around. For many of the challenges I’ve discussed, a few meaningful reforms phased-in over time will make a huge difference. And by acting sooner rather than later, we can minimize the need for drastic measures down the road and give everyone more time to adjust to the changes.

More of us need to insist on the facts, accept the need for meaningful change and shared sacrifice, and fulfill our stewardship obligation to our country, our children, and our grandchildren. If “we the people” remain silent, our government will remain on autopilot, our burdens will mount, and our fiscal fuse will only get shorter.

In closing, as President Kennedy said in his 1961 State of the Union address, “To state the facts frankly is not to despair the future nor indict the past. The prudent heir takes careful inventory of his legacies and gives a faithful accounting to those to whom he owes an obligation of trust ... We do have no greater asset than the willingness of a free and determined people, through its elected officials, to face all problems frankly”

The time has come for all of us to take these words to heart, especially when it comes to our nation's growing fiscal imbalance. For as Teddy Roosevelt said, "Fighting for the right [cause] is the noblest sport the world affords." Let's work together for a better future and to help keep America great.